



SOUND TRANSIT AUDIT AND REPORTING COMMITTEE MEETING

Summary Minutes

June 18, 2015

CALL TO ORDER

The meeting was called to order at 11:06 a.m. by Committee Chair Larry Phillips, in the Ruth Fisher Boardroom, 401 South Jackson Street, Seattle, Washington.

ROLL CALL

Chair

(P) Larry Phillips, King County Council Chair

Vice Chair

(P) Dave Enslow, Sumner Mayor

Committee Members

(A) John Lovick, Snohomish County Executive

(P) Mike O'Brien, Seattle Councilmember

(P) Joe McDermott, King County Councilmember

(P) Josh Benaloh, Citizen Oversight Panel Chair

(P) Mary Moss, Lakewood Councilmember

Ms. Katie Flores, Board Coordinator, announced that a quorum of the Committee was present at roll call.

REPORT OF THE CHAIR

Chair Phillips introduced Brian McCartan, Executive Director of Finance and Information Technology who reviewed the agenda.

EXTERNAL AUDIT RESULTS

Annual External Reporting

As a recipient of financial funds, Sound Transit is required to have independent audits conducted on its financial statements, internal controls, and compliance with government auditing standards. Kelly Priestly, Director of Accounting, reviewed the Management's Discussion and Analysis (MD&A) portion of the audit results. The MD&A is a narrative overview and analysis of Sound Transit financial activities for the years audited.

For 2014, there were no new accounting pronouncements requiring adoption. Sound Transit's net position grew as Sound Transit continued to make progress on the ST2 capital program. Significant project activity occurred on the Northgate, Eastlink, University Link, and S 200th Link extensions. Current assets decreased with the execution of the ST2 program and long-term debt decreased with the payment of principle. The 2005 bond issue was paid in full. Sound Transit's largest portion of investments includes capital, infrastructure and operating assets necessary for the provision of service. Total revenues and fares increased. Loss from operations decreased. Ms. Priestly noted that depreciation expense decreased as costs related to the tunnel were determined to be depreciable over a longer period of time. Overall operating expenses increased before the depreciation adjustment, reflecting increased purchased transportation rates, increased service hours, increased ridership and increased mid-life vehicle maintenance. All of these increases affected fare costs.

ST Express ridership has grown despite near capacity conditions, reflecting optimized service redeployments during off-peak to peak hours. Link and Sounder ridership also increased. Passenger use of daily and monthly passes has increased resulting in a decrease in average fare per boarding for all modes. Additional assets and routes resulted in increased operations and maintenance costs for all modes. Regional economic growth is positively affecting tax revenues resulting in an increase from the prior year. Interest capitalized to projects resulted in lower operating expenses.

Presentation of Audit Results – KPMG

Michael Hayhurst, Tara Krier, Michael Ortman, and Rachel Kehoe from KPMG summarized the audit results. Mr. Hayhurst noted that Beth Stuart was responsible for the audit concurring partner review and recognized other team members that performed specific audit functions.

Mr. Hayhurst reported that audit deliverables included an opinion on financial statements, federal OMB A-133 compliance reports, subarea equity procedures, National Transit Database procedures, planning and year-end result briefings and a Letter of Required Communications to the Audit and Reporting Committee.

The financial statement audit showed successful results with no major findings. Ms. Krier summarized key areas of emphasis for the audit and procedures used during the audit. Revenues are up in the majority of categories year over year as expected. The largest expenditures, grants, tax dollars and related capital activities were a major focus of the audit. Additional details are included as part of the audit deliverables.

KPMG issued an unmodified opinion. Mr. Hayhurst explained further that the opinion issued reflects the accuracy of Sound Transit financial statements and their accordance with generally accepted accounting principles. Mr. Hayhurst also reported that numbers related to key estimates are accurate and that internal controls are sufficient. There were no significant audit adjustments. Finally, Mr. Hayhurst verified that KPMG is independent of Sound Transit and is able to act as an independent auditor.

The A-133 Audit reports on controls and compliance around the Federal Grant process. Audit Results showed no deficiencies and no proposed adjustments. Sound Transit spent almost \$200 million in Federal Grants. This is an increase year over year mirroring the increase in capital projects. Ms. Krier reported that KPMG issued an unmodified opinion after testing four major programs, indicating no findings related to process controls and no findings of instances related to compliance. Major testing categories included transactions, contracts with vendors and reporting requirements.

Mr. Ortman reported that KPMG is finalizing the remaining Agreed upon Procedures reports to be provided to Sound Transit over the next month. Those reports will include the National Transit Database, ridership summary, ORCA financial statements and subarea equity. Mr. Ortman closed by thanking Sound Transit for its assistance with the audit.

2014 State Accountability Audit Update

Kelly Priestly reported that next week, the state accountability audit team would be looking at the ORCA joint venture that Sound Transit administers as fiscal agent.

FINANCIAL REPORTING

Brian McCartan, Executive Director of Finance and IT introduced John Baldwin who joined Sound Transit as the new Assistant Treasurer.

First Quarter Financial Report

Brian McCartan, Executive Director of Finance and IT presented the staff report. The report compares budget to actuals for the first quarter of 2015. Mr. McCartan reported that every revenue category was above budget and that operational and staff expenditures are consistent for the period with no real variances. The capital program budget is slightly higher and those variances are the results of right-of-way purchases happening earlier than anticipated and four projects where construction is proceeding ahead of pace. There are no other major variances.

First Quarter Asset Liability Management Report

Mr. McCartan reported no significant changes. The intensity of the Sound Transit capital program is drawing down cash levels. Sound Transit will be initiating a bond purchase in August to raise additional funds to pay

for the capital program. Cash balances in the report will change substantially after the bond sale. Mr. McCartan noted that cash reserves held up six to nine months longer than anticipated.

First Quarter Contract Reports

Mr. McCartan summarized the types of contracts executed by the chief executive officer during the first quarter.

INTERNAL AUDIT UPDATE

David Hammond, Internal Audit Director presented the staff report.

Performance Audits – Status Update

The 2014 Public Safety Program Audit draft report provided results that did not include enough specificity or corrective actions. Sound Transit requested a revised draft report that provides more cohesive, actionable findings. Mr. Hammond expects the report in August 2015.

Fieldwork for the Construction Quality Assurance and Quality Control Performance audit will begin in July. Draft results are due in March 2016.

Internal Audit Reports Issued

Mr. Hammond introduced Shelli Applegate, Certified Internal Auditor who reported on the follow up audit of the Non-Revenue Vehicle Program. Sound Transit reported on the results of the original audit along with recommendations in 2013. Sound Transit maintains a fleet of approximately 170 non-revenue vehicles for use by Sound Transit staff and King County Metro to conduct agency business. The Facilities and Asset Control Division is responsible for maintaining and monitoring the use of these vehicles.

During early stages of the follow up audit, staff refocused audit objectives after observing that Sound Transit had acted on only some of the previously recommended actions. Attention focused on use of vehicles by authorized personnel for valid purposes and agency compliance with IRS requirements regarding reporting of vehicle use. Audit results found additional monitoring resulted in improvements in the use of pooled vehicles.

The audit also revealed that increased monitoring by Sound Transit's Operations department did not identify significant instances of policy non-compliance. Four findings were issued including: 1) internal control deficiencies reported in 2013 had not been effectively addressed 2) use of agency vehicles for commute purposes which was not in compliance with Sound Transit policy 3) use of vehicles assigned to King County Metro were not in compliance with King County policy and 4) certain agency vehicles were underutilized. The intergovernmental agreement between Sound Transit and King County clearly defines vehicle use policies. Internal audit issued fifteen recommendations for the four findings. Recommendations reiterated the need for Sound Transit to address prior audit recommendations and additional recommendations made to improve monitoring for policy compliance. The audit suggests establishing measurable criteria for vehicle assignments to divisions and individuals to assist in determining fleet size and to strengthen management procedures. Management responded to all recommendations. Internal Audit scheduled a follow up audit for next year to verify actions implemented and determine the effectiveness of those actions.

Boardmembers expressed concerns over the lack of action by Sound Transit staff and sought assurances of an established plan to implement recommendations in a timely manner. Mr. Hammond responded that management documented detailed corrective actions along with timeframes for implementation by the end of the year. Mr. Hammond introduced David Huffaker, Acting Director of Facilities and Control to answer additional Boardmember questions regarding the management of the corrective action plan.

Mr. Huffaker stated that he shares Boardmembers frustration in progress made to date. While some procedures were put in place, those procedures were not adequately documented. Management has put together a detailed work plan to address all corrective actions and new staff added in 2014 is now fully

trained and ready to implement recommendations. Retraining is required for both Sound Transit and King County Metro and a communication plan to detail procedures to be followed is in development.

Boardmember O'Brien asked staff to provide additional detail on the plan to right size the vehicle fleet.

Mr. Huffaker provided some examples of corrective actions and explained that Sound Transit is improving documentation of rotational on-call vehicle assignments. Sound Transit assigns a number of vehicles to divisions needing to get to construction sites that do not currently have available transit options. Some of these are underutilized and staff will review these assignments to determine if some of these vehicles should be reassigned to the agency pool, reducing the overall fleet size.

In response to a Boardmember request, staff agreed to provide an interim progress report in the next 3 to 6 months. Mr. Hammond clarified that once management has implemented the recommendations and sufficient time has been given for the program to mature, additional in-depth analysis will be completed to evaluate the effectiveness of the corrective actions.

Internal Audits in Progress

Mr. Hammond completed his presentation with a summary of audits in progress.

EXECUTIVE SESSION

None

NEXT MEETING`

September 17, 2015
11:00 a.m. to 12:30 p.m.
Ruth Fisher Boardroom

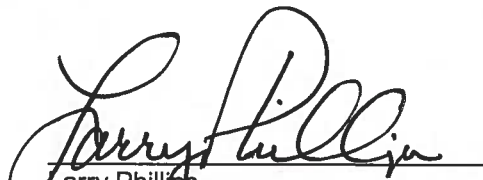
ADJOURN

The meeting adjourned at 11:59 p.m.

ATTEST:



Kathryn Flores
Board Administrator


Larry Phillips
Audit and Reporting Committee Chair

APPROVED on October 15, 2015